STATEMENT OF THE MANAGERS ON THE PART OF THE HOUSE

The managers on the part of the House at the conference on the disagreeing votes of the two Houses on the amendments of the Senate to the bill (H. R. 4473) to provide revenue, and for other purposes, submit the following statement in explanation of the effect of the action agreed upon by the conferees and recommended in the accompanying conference report:

Amendment No. 1: The House bill provided for an increase in individual income-tax rates by a percentage increase of 12½ percent of the tax liability under existing law, with an over-all effective ceiling rate of 90 percent of the net income of the taxpayer. The House bill also increased the alternative tax on capital gains by 12½ percent. The Senate amendment eliminated the increase in the alternative tax on capital gains and provided, in general, for an increase of 11 percent of the present tax liability, or 8 percent of the amount by which the surtax net income exceeds present taxes, whichever produced the lesser increase in tax. The Senate amendment provided an over-all ceiling rate of 88 percent of the net income of the taxpayer.

Under the conference agreement the increase in the combined normal tax and surtax under existing law will, in general, be 11¾ percent of the present rates or 9 percent of the amount by which the surtax net income exceeds present taxes, whichever is the lesser. Special rates are provided for the calendar year 1951 so as to reflect November 1, 1951, as the effective date of the increase in tax. The ceiling rate of 88 percent contained in the Senate amendment is retained under the conference agreement, and no increase in tax is provided with respect to the alternative tax on capital gains. Under the House bill no termination date was provided for the increase in the taxes. The Senate amendment provided for the termination of the increased rates on January 1, 1954, and the conference agreement retains the termination date.

Amendments Nos. 2 and 3: These amendments are clerical. The Senate recedes.

Amendments Nos. 4 and 5: The House bill provided for an increase in the normal tax on corporations, in general, from 25 to 30 percent of normal tax net income, applicable to taxable years beginning after December 31, 1950. The Senate provided for an increase in the corporation normal tax from 25 to 27 percent and an increase in the corporation surtax from 22 to 25 percent. Under the Senate amendment, the increases in normal tax and surtax were to be effective as of April 1, 1951, and were to terminate on December 31, 1953. Special rates were provided for the calendar year 1951 to reflect the April 1 effective date. Under the conference agreement on amendments 4 and 5, the normal tax is increased from 25 to 30 percent as provided in the House bill with no increase in the surtax. The increase in normal tax is to be effective as of April 1, 1951, with a normal tax rate of 28¾ percent for the calendar year 1951. The conference

agreement provides that the increase in normal tax is to terminate as of March 31, 1954.

Amendment No. 6: The House bill amended section 430 (a) (2) of the code (relating to maximum excess profits tax) so as to increase the percentage used under existing law for computing the maximum excess profits tax from 62 to 70 percent. The Senate amendment provided a new method for computing the maximum excess profits tax which, in general, was 16½ percent of the excess profits net income for the calendar year 1951 and was 17 percent of the excess profits net income for taxable years beginning after March 15, 1951. The 17 percent figure of the Senate amendment was comparable to a 69 percent figure under the method provided in the House bill. The House recedes with an amendment which adopts the Senate method of computing the maximum tax but increases the 17 percent figure to 18 percent (comparable to the House bill 70 percent figure) for taxable years beginning after March 31, 1951. Under the conference agreement the maximum excess profits tax for the calendar year 1951 is 17¼ percent of the excess profits net income for such year.

Amendments Nos. 7, 8, and 9: Senate amendments Nos. 7 and 8 amended section 207 (a) (tax on certain insurance companies), 362 (b) (tax on regulated investment companies), section 421 (a) (tax on business income of certain tax exempt organizations), and section 26 (relating to credits for corporations) of the code to make changes conforming to the action of the Senate with respect to the corporate normal and surtax rate increases. These amendments also made other technical conforming changes in the code. Senate amendment No. 9 struck out section 123 of the House bill which provided for the allowance of only one surtax exemption and one minimum excess profits credit to certain controlled groups of corporations. The House recedes on amendments Nos. 7 and 8 with conforming amendments and an amendment adding a new section 15 (c) to the code (relating to disallowance of surtax exemptions and minimum excess profits credit) and the House recedes on amendment No. 9.

The new subsection (c) of section 15 applies to the situation where a corporation, on or after January 1, 1951, transfers property (other than money) to one or more corporations created for the purpose of acquiring such property, or to one or more corporations not actively engaged in business at the time of such acquisition, if after such transfer the transferor corporation or its stockholders, or both, are in control of the transferee during any part of a taxable year of such transferee corporation. In such case the transferee corporation shall not be allowed either the $25,000 exemption from surtax or the $25,000 minimum excess profits credit unless it establishes by the clear preponderance of the evidence that the securing of the $25,000 exemption or the $25,000 minimum excess profits credit, or both, was not a major purpose of the transfer of the property to it by the transferor. The term "control" is defined as the ownership of stock possessing at least 80 percent of the total combined voting power of all classes of stock entitled to vote or at least 80 percent of the total value of shares of all classes of stock of the corporation. Under the amendment the ownership of stock is to be determined in accordance with the provisions of section 503, except that constructive ownership under section 503 (a) (2) is to be determined only with respect to the individual's spouse and minor children. The Secretary, to the

extent not inconsistent with the provisions of the new subsection, is granted the same authority as under section 129 (b) to allow in whole or in part a surtax exemption or a minimum excess profits credit which might otherwise be disallowed under the subsection or to apportion such exemption or credit among the corporations involved. For example: Corporation A transfers on January 1, 1952, all of its property to corporations B and C in exchange for the entire stock of such corporations. Immediately thereafter corporation A is dissolved, its stockholders becoming the stockholders of B and C. Assuming that a major purpose for such transfers is to secure additional surtax exemptions and minumum excess profits credits, the Secretary has the authority to allow one such exemption and credit and to apportion such exemption and credit between corporations B and C. It is provided that the subsection shall not be applicable to any taxable year with respect to which the tax imposed by subchapter D of chapter 1 (relating to the excess profits tax) is not in effect. It is not intended that the new subsection shall in any way delimit or abrogate any of the existing provisions of the code (including sec. 129), or any principle established by judicial decision, which have the effect of preventing the avoidance of income or excess profits taxes.

Amendment No. 10: This amendment strikes out all of section 124 of the House bill relating to the computation of an alternative capital gains tax. The House recedes.

Amendment No. 11: This amendment provides, in general, that corporations subject to a tax imposed by chapter 1 of the code for a taxable year ending after March 31, 1951, but prior to October 1, 1951, shall after the date of the enactment of the bill and on or before January 15, 1952, make a return for such taxable year with respect to such tax and such taxable year. The House recedes.

Amendment No. 12: This amendment, which corresponds to section 125 of the House bill, provides the effective date of part II of title I. The House recedes.

Amendment No. 13: This amendment, relating to the computation of tax by certain fiscal year taxpayers, corresponds to subsection (a) of section 131 of the House bill with such changes as are necessary to reflect the normal tax and surtax rates and the termination dates provided by the Senate amendments. The House recedes with amendments conforming to the conference action with respect to the corporate income tax rates.

Amendments Nos. 14, 15, 16, 17, 18, 19, 20, and 21: These amendments are clerical amendments. The House recedes.

Amendment No. 22: This amendment strikes out part I of title II of the House bill providing for the withholding of tax at the source on dividends, interest, and royalties. The House recedes.

Amendment No. 23: This amendment, which corresponds to part II of title II of the House bill (relating to increase in withholding of tax at source on wages) amends section 1622 (a) of the code by changing the percentage rate of withholding from 18 percent to 20 percent in the case of wages paid on or after November 1, 1951, and before January 1, 1954. It also amends section 1622 (c) (1), relating to wage-bracket withholding, to provide new tables which reflect the increased tax rates. It also provides, as did the House bill, for additional withholding of tax on wages upon agreement by employer

and employee and provides that the amendments made thereby shall be applicable only with respect to wages paid on or after November 1, 1951. The House recedes.

Amendments Nos. 24, 25, 26, and 27: These amendments are clerical and conforming amendments. The House recedes.

Amendment No. 28: Section 301 of the House bill amended section 12 (c) of the code to provide for a head of a household approximately one-half of the income-splitting benefits provided for a husband and wife who file a joint return. Under the Senate amendment the head of a household was afforded approximately one-fourth of such benefits. The House recedes with an amendment conforming to the House action in affording approximately one-half of such benefits and making the necessary changes in the surtax tables to conform to the conference action with respect to individual income tax rates and effective date provisions.

Amendment No. 29: Under the House bill, a taxpayer might qualify as a head of a household by reason of such household constituting the principal place of abode of a descendant of a stepson or stepdaughter of the taxpayer. Under the Senate amendment, such descendants are eliminated from the category of persons in respect of whom the taxpayer may qualify as head of a household. The House recedes.

Amendment No. 30: This amendment adds subsection (b) to section 301 of the bill to provide that in the case of a head of a household who elects the benefits of section 51 (f) (1) of the code (relating to tax computed by collector in case of wage earners) the tax shall be computed by the collector under supplement T without regard to the taxpayer's status as head of a household. The House recedes.

Amendment No. 31: This amendment amends section 22 (b) (1) of the code (relating to exclusion of life insurance proceeds from gross income) to provide for a limited exclusion for amounts paid by an employer to the beneficiaries of an employee by reason of the employee's death. The House recedes.

Amendment No. 32: This amendment amends sections 113 (a) (5) and (22) (b) (2) of the code to provide that the basis of a survivor's interest in a joint and survivor annuity, the value of which is required to be included in the estate of a decedent annuitant dying after December 31, 1950, shall be considered to be acquired by "bequest, devise, or inheritance" and that such basis (that is, the value of such survivor's interest at the time of the decedent's death) shall be considered, for purposes of determining the amount to be included in the income of the survivor, to be the consideration paid for the survivor's annuity. The House recedes.

Amendment No. 33: This amendment provides for the permanent enactment of section 22 (b) (9) of the code, relating to exclusion from gross income of income attributable to the discharge of certain indebtedness in the case of a corporation which consents to reduction in basis of its properties in an amount equal to the income excluded, and extends for three years the application of section 22 (b) (10), relating to the exclusion of income of a railroad corporation attributable to the discharge of its indebtedness in a receivership proceeding. The amendment is similar to H. R. 2416, which was passed by the House on April 12, 1951 (H. Report No. 311). The House recedes.

Amendment No. 34: This amendment makes certain changes in section 22 (b) (13) of the Internal Revenue Code, relating to the additional allowance for certain members of the Armed Forces.

Section 22 (b) (13) of existing law excludes from gross income certain compensation received for active service in the Armed Forces of the United States for any month during any part of which the recipient served in a combat zone after June 24, 1950, and prior to January 1, 1952. This amendment extends this latter date from January 1, 1952, to January 1, 1954.

This amendment also extends the exclusion to certain compensation received for active service in the Armed Forces of the United States for any month during any part of which the recipient was hospitalized at any place as a result of wounds, disease, or injury incurred while serving in a combat zone after June 24, 1950, and prior to January 1, 1954, provided that during all of such month there are combatant activities in some combat zone. The House recedes.

Amendment No. 35: This amendment revises section 22 (d) (6) (F) (iii) of the code, which provision was added to section 22 (d) (6) by Public Law 919 (81st Cong., 2d sess.), so as to vary the application of the rule with respect to replacement of involuntary liquidations of inventories in certain cases where such replacement is made during taxable years ending after June 30, 1950, and prior to January 1, 1953. The effect of the amendment would be to permit the replacement of the World War II involuntary liquidations during taxable years ending after June 30, 1950, and prior to January 1, 1953, without requiring that the involuntary liquidations occurring during such years be first replaced, thus enabling the replacement of the World War II liquidations to be made in time to permit them to qualify for the benefits of section 22 (d) (6). The House recedes.

Amendment No. 36: This amendment amends section 23 (x) (relating to the deduction of medical expenses) by eliminating the 5 percent limitation with respect to the deduction of medical, dental, etc., expenses paid during the taxable year, not compensated for by insurance or otherwise, for the care of the taxpayer or his spouse if either the taxpayer or his spouse attains the age of 65 before the close of the taxable year. The limitation with respect to the maximum deduction allowable under section 23 (x) remains unchanged. The amendment is effective with respect to taxable years beginning after December 31, 1950. The House recedes.

Amendment No. 37: This amendment adds paragraph (7) to section 23 (aa) of the Internal Revenue Code to provide, in general, that an election to take or not to take the standard deduction for any taxable year may be changed after the time prescribed for filing a return for such year. The House recedes.

Amendment No. 38: This amendment is clerical. The House recedes.

Amendment No. 39: Section 302 of the House bill would add a new subparagraph (D) to section 23 (a) (1) of the code providing, in general, that all expenditures paid or incurred after December 31, 1950, in the development of a mine or other natural deposit (other than an oil or gas well), to the extent paid or incurred after the existence of ores or minerals in commercially marketable quantities has been disclosed, shall be deducted ratably as the produced ores or minerals benefited

by such expenditures are sold. Section 302 of the House bill also amended section 113 (b) (1) by adding a new subparagraph (J) thereto to provide for adjustment to the basis of the mine or deposit for amounts allowed as a deduction under new subparagraph (D) as added to section 23 (a) (1).

The Senate bill made technical changes in the House provisions and inserted the substance of subparagraph (D) as added to section 23 (a) (1) by the House bill in a new subsection (cc) to be added to section 23 of the code. The Senate bill also added a provision to the new subsection (cc) which, in general, would allow the taxpayer to elect to deduct development expenditures either in the taxable year paid or incurred or ratably during the taxable years in which the produced ores or minerals benefited by such expenditures are sold. The House recedes.

Amendments Nos. 40 and 41: These amendments are clerical. The House recedes.

Amendment No. 42: This amendment changes section 25 (b) (1) (D) of the code to increase the gross income test of a dependent from $500 to $600. The House recedes.

Amendment No. 43: This amendment adds to section 26 (b) of the code a new paragraph to provide for a dividends received credit in the case of dividends received from a foreign corporation (other than a foreign personal holding company) subject to taxation under chapter 1 of the code which for a stipulated uninterrupted period of time has been engaged in trade or business within the United States and has derived during such period 50 percent or more of its gross income from sources within the United States.

The House recedes with an amendment under which the dividends received credit will be allowed with respect to dividends received from such a foreign corporation in an amount equal to—

(A) 85 percent of the dividends received out of its earnings or profits of the taxable year (computed as of the close of the taxable year without diminution by reason of any distributions made during the taxable year) without regard to the amount of the earnings or profits at the time the distribution was made, but such amount shall not exceed an amount which bears the same ratio to 85 percent of such dividends received out of such earnings or profits as the gross income of such foreign corporation for such taxable year from sources within the United States bears to its gross income from all sources for such taxable year, and

(B) 85 percent of the dividends received out of that part of its earnings or profits specified in clause (1) of the first sentence of section 115 (a) accumulated after the beginning of such uninterrupted period, but such amount shall not exceed an amount which bears the same ratio to 85 percent of such dividends received out of such accumulated earnings or profits as the gross income of such foreign corporation from sources within the United States for the portion of such uninterrupted period ending at the beginning of the taxable year bears to its gross income from all sources for such portion of such uninterrupted period.

The determination of earnings or profits distributed in any taxable year shall be made in accordance with section 115 (b) of the code.

The application of this amendment is illustrated by the following example: Corporation A (a foreign corporation filing its return on a

calendar year basis) whose stock is 100 percent owned by Corporation B (a domestic corporation filing its return on a calendar-year basis) for the first time engaged in trade or business in the United States on January 1, 1940, and qualified under this amendment for the entire period beginning from that date and ending with December 31, 1951. Corporation A had accumulated earnings or profits of $50,000, immediately prior to January 1, 1940, and had earnings or profits of $10,000 for each taxable year during the uninterrupted period from January 1, 1940, through December 31, 1951. It derived for the period from January 1, 1940, through December 31, 1950, 90 percent of its gross income from sources within the United States, and in 1951 derived 95 percent of its gross income from sources within the United States. During the calendar years, 1940, 1941, 1942, 1943, and 1944 corporation A distributed in each year $15,000; during the calendar years 1945, 1946, 1947, 1948, 1949, and 1950 it distributed in each year $5,000; and during the year 1951, $50,000. For 1951 a dividends-received credit of $31,025 will be given corporation B with respect to the $50,000 received from corporation A, computed as follows:

(1) $8,075 which is $8,500 (85 percent of the $10,000 of earnings or profits of the taxable year) multiplied by 95 percent (the portion of the gross income of A corporation derived during the taxable year from sources within the United States) plus

(2) $22,950 which is $25,500 (85 percent of $30,000 (that part of the earnings or profits accumulated after the beginning of the uninterrupted period)) multiplied by 90 percent (the portion of the gross income derived from sources within the United States during that portion of the uninterrupted period ending at the beginning of the taxable year).

If, in the foregoing example, corporation A for the taxable year 1951 had incurred a deficit of $10,000 (shown to have been incurred prior to December 31), and if it had distributed $50,000 on December 31, 1951, the dividends received credit which corporation B would receive would be $15,300, computed by multiplying $17,000 (85 percent of $20,000 earnings or profits accumulated after the beginning of the uninterrupted period) by 90 percent (the portion of the gross income from United States sources during that part of the uninterrupted period ending at the beginning of the taxable year).

Amendment No. 44: This amendment adds to section 51 of the code (relating to individual returns) a new subsection (g) providing for the filing of a joint return by a taxpayer and his spouse for a taxable year for which a joint return could have been made under section 51 (b) even though the time prescribed by law for filing the return for such taxable year has expired. This provision is effective with respect to taxable years beginning after December 31, 1950: The House recedes.

Amendment No. 45: This amendment adds section 313 to the bill which relates to income-tax treatment of mutual savings banks, building and loan associations, and cooperative banks, effective with respect to taxable years beginning after December 31, 1951. The House recedes with an amendment.

Subsection (a) of section 313 as agreed to in conference repeals section 101 (2) of the code (relating to exemption from tax of mutual savings banks).

Subsection (b) amends section 101 (4) of the code to repeal the exemption from tax of building and loan associations and cooperative banks. Credit unions without capital stock organized and operated for mutual purposes and without profit will remain tax-exempt under section 101 (4) of the code.

The amendment to section 101 (4) of the code made by subsection (b) will also continue to exempt from tax corporations or associations without capital stock organized prior to September 1, 1951, and operated for mutual purposes and without profit for the purpose of providing reserve funds for, and insurance of, shares or deposits in (A) domestic building and loan associations (as defined in sec. 3797 (a) (19), (B) cooperative banks without capital stock organized and operated for mutual purposes and without profit, or (C) mutual savings banks not having capital stock represented by shares.

Subsection (c) amends section 454 of the code to add to the list of corporations exempt from the excess profits tax any mutual savings bank not having capital stock represented by shares, any domestic building and loan association (as defined in sec. 3797 (a) (19)), and any cooperative bank without capital stock organized and operated for mutual purposes and without profit.

Subsection (d) amends section 5 (h) of the Home Owners Loan Act of 1933 (48 Stat. 132; 12 U. S. C., sec. 1464 (h)), to remove the language in such section exempting Federal savings and loan associations from Federal income tax, war-profits, and excess profits taxes, in the case of taxable years beginning after December 31, 1951. These associations will not, of course, be subject to the excess profits tax, by reason of the amendment made by subsection (c).

Subsection (e) amends section 23 (k) (1) (relating to deduction from gross income of bad debts) to provide rules with respect to a reasonable addition to a reserve for bad debts in the case of a mutual savings bank not having capital stock represented by shares, a domestic building and loan association, and a cooperative bank without capital stock organized and operated for mutual purposes and without profit. Where 12 percent of the total deposits or withdrawable accounts of the institution's depositors at the close of the taxable year exceeds the sum of its surplus, undivided profits and reserves at the beginning of the taxable year it may take a deduction for a reasonable addition to a reserve for bad debts for such year in any amount determined by it to be a reasonable addition for such year, except that such amount shall not be greater than the lesser of (A) the amount of its net income for such year computed without regard to this provision, or (B) the amount by which such 12 percent of its total deposits exceeds its surplus, undivided profits, and reserves at the beginning of such year. Where the sum of the institution's surplus, undivided profits, and reserves at the beginning of the taxable year equals or exceeds 12 percent of its total deposits or withdrawable accounts at the close of such year, any deduction for such year for a reasonable addition to a reserve for bad debts will be determined under the general provisions of section 23 (k) (1). In determining a deduction for a reasonable addition to a reserve for bad debts, and in determining the sum of the surplus, undivided profits, and reserves, there will be taken into account surplus, undivided profits, and bad debt reserves accumulated prior to the close of December 31, 1951 (i. e., during the period for which the institution was not subject to taxation).

Subsection (f) amends section 23 (r) (relating to the deduction from gross income of certain dividends paid by banking corporations) to provide that in the case of mutual savings banks, cooperative banks, and domestic building and loan associations (for definition of domestic building and loan associations, see section 3797 (a) (19) as added by section 313 (i) of the bill), there shall be allowed as deductions in computing net income any amounts paid to, or credited to the accounts of, depositors or holders of accounts as dividends on their deposits or withdrawable accounts, if such amounts may be withdrawn on demand subject only to customary notice of intention to withdraw. For example, if an institution has the right to receive 30 days' notice prior to the withdrawal of a deposit or of any amounts paid or credited to the account thereof, the amounts credited will nevertheless be considered as withdrawable on demand subject only to customary notice of intention to withdraw.

Subsection (g) amends section 23 of the code (relating to deductions from gross income) to provide a deduction for repayment of certain loans by a mutual savings bank not having capital stock represented by shares, a domestic building and loan association (as defined in section 3797 (a) (19) of the code) or a cooperative bank without capital stock organized and operated for mutual purposes and without profit. It provides that amounts paid by the taxpayer during the taxable year in repayment of loans made prior to September 1, 1951, by the United States or any agency or instrumentality thereof which is wholly owned by the United States, or by a mutual fund established under the authority of the laws of any State, shall be allowed as a deduction in computing net income of the taxpayer. An example for this purpose of an agency or instrumentality wholly owned by the United States would be the Reconstruction Finance Corporation.

Subsection (h) amends section 104 (a) of the code (defining the term bank) to include, within the definition of bank, a domestic building and loan association.

Subsection (i) amends section 3797 (a) of the code (relating to definitions for the purpose of the Internal Revenue Code) to define the term "'domestic building and loan association" to mean a domestic building and loan association, a domestic savings and loan association, and a Federal savings and loan association, substantially all the business of which is confined to making loans to members. This amendment is of a clarifying nature and is not intended to change the existing meaning of a domestic building and loan association.

Subsection (j) provides that the amendments made by the section shall be applicable only with respect to taxable years beginning after December 31, 1951.

Amendment No. 46: This amendment in general amends section 101 (12) of the code to subject tax-exempt cooperatives to normal tax and surtax on earnings not definitely allocated to the accounts of patrons.

The House recedes with an amendment making a clerical change, and with the following additional amendments. First, it is provided that amounts allocated to patrons with respect to income not derived from patronage, if made after the close of the taxable year and on or before the fifteenth day of the ninth following month, shall be considered as made during the taxable year to the extent such allocations are attributable to income derived before the close of the taxable year.

Second, it is made clear that in taking into account patronage dividends to patrons with respect to their patronage in computing the net income of the cooperative, it is immaterial whether such dividends relate to patronage of the taxable year of the cooperative or to patronage of preceding taxable years. Third, the provision of the Senate amendment relating to withholding on patronage dividends in the event withholding is required on corporate dividends is stricken from the bill.

Under the conference agreement, patronage dividends allocated by a cooperative to its patrons will not be treated as taxable income to the cooperative.

Amendment No. 47: This amendment, which adds a new subparagraph (D) to section 102 (d) (1) of the Internal Revenue Code, provides that the excess of the net long-term capital gain for the taxable year over the net short-term capital loss for such year, less the taxes imposed by chapter 1 of the code attributable to such excess, shall be deducted from the net income in computing section 102 net income. However, the fact that such excess is not to be taken into account in the tax basis on which the penalty tax under section 102 is imposed will not prevent capital gains from being taken into consideration in determining whether earnings or profits of a corporation have been permitted to accumulate beyond the reasonable needs of the business. The House recedes.

Amendment No. 48: This amendment amends section 112 (b) (7) of the code (relating to election as to recognition of gain in certain corporate liquidations), so as to make it applicable to cases in which the liquidation is pursuant to a plan adopted after December 31, 1950, and the transfer of all the property under the liquidation occurs within one calendar month in 1951 or 1952. The House recedes.

Amendment No. 49: This amendment amends sections 112 (b) and 113 (a) of the code to provide for the nonrecognition of gain in certain cases, where, pursuant to a plan of reorganization, a shareholder of a corporation which is a party to the reorganization receives stock (other than preferred stock) in another corporation which is a party to the reorganization without the surrender by such shareholder of stock. This amendment is applicable with respect to taxable years ending after the date of the enactment of this act, but applies only with respect to distribution of stock made after such date. The House recedes.

Amendment No. 50: This is a clerical amendment. The House recedes.

Amendment No. 51: Section 303 of the House bill provides, in general, that any gain from a sale of property used by the taxpayer as his principal residence will not be recognized if the taxpayer within a period beginning 1 year prior to the date of such sale and ending 1 year after such date purchases property and uses it as his principal residence except to the extent that the taxpayer's selling price of the old residence exceeds his cost of purchasing the new residence. The Senate amendment provides that, where the taxpayer is constructing the new residence, such period shall include 18, rather than 12, months after such sale. If the taxpayer commenced construction of the new residence more than 1 year prior to the date of the sale of the old residence, in determining the taxpayer's cost of building the new residence there will be included only so much of the cost as is attributable to

the construction made during the period beginning 1 year prior to the date of the sale of the old residence and ending 18 months after such date. The House recedes.

Amendment No. 52: This is a clerical amendment. The House recedes.

Amendment No. 53: The House bill granted a percentage depletion allowance at the rate of 5 percent in the case of deposits of asbestos, sand, gravel, stone (including pumice, scoria, and slate), brick clay, tile clay, shale, oyster shell, clam shell, granite, and marble. The Senate amendment granted percentage depletion in the case of asbestos at the rate of 10 percent and added to the above list sodium chloride and, if produced from brine wells, calcium chloride, magnesium chloride, potassium chloride, and bromine. The Senate amendment removed slate from the parenthetical clause following stone and included it as a separate item in this 5-percent category. The House bill increased the 5-percent rate of percentage depletion now allowed for coal to 10 percent. The Senate amendment followed this treatment in the case of coal and included in this new 10-percent category those minerals which the House bill would have allowed percentage depletion at a rate of 15 percent. These minerals are borax, fuller's earth, tripoli, refractory and fire clay, quartzite, perlite, diatomaceous earth, metallurgical grade limestone, and chemical grade limestone. The Senate amendment also added wollastonite, magnesite, dolomite, brucite, and calcium and magnesium carbonates, to this 10-percent list, and added aplite and garnet to the list now allowed percentage depletion at the 15-percent rate.

The bill, as passed by both the House and the Senate, made technical amendments to section 114 (b) (4) (A) which do not alter its substance. The House bill changed the parenthetical clause, stating that thenardite produced from brines or mixtures of brine would be allowed percentage depletion, to state that thenardite, including thenardite from brines or mixtures of brine, would be permitted such allowance. The Senate amendment achieved the same effect by striking the parenthetical clause.

The amendments made by both Houses are applicable only with respect to taxable years beginning after December 31, 1950.

The House recedes with an amendment which restores borax, fuller's earth, tripoli, refractory and fire clay, quartzite, diatomaceous earth, metallurgical grade limestone, and chemical grade limestone to the 15-percent category in which they appeared in the House bill and which removes potassium chloride from the list of minerals to which the Senate bill granted the percentage depletion allowance at the 5-percent rate. Potassium chloride is entitled, under existing law, to percentage depletion allowance at 15 percent. Under the conference agreement calcium carbonates are granted an allowance of 10 percent, while marble, which is a calcium carbonate, receives 5 percent. It is intended, in any case where a mineral is specifically provided for at a stated rate of percentage allowance, that the specific provision will govern over the allowance provided (whether higher or lower) for a more general classification.

It is the intention, in including stone in the 5-percent percentage depletion category, to limit such term to its commonly understood meaning. Thus, depletion would be allowed in the case of common

stone which is crushed for use in building roads but would not be allowed in the case of precious stones such as diamonds.

Amendment No. 54: Section 115 (g) (3) of the Internal Revenue Code provides in substance that section 115 (g) (1), relating to the treatment as dividends of amounts distributed in redemption of stock, shall be inapplicable where the redemption is of stock the value of which is included in determining the value of the gross estate of a decedent provided, among other limitations, that the value of the stock in such corporation comprises more than 50 percent of the value of the net estate of the decedent. Under the Senate amendment, the 50-percent limitation would be reduced to 25 percent. The House recedes with an amendment under which the value of the stock of the corporation must comprise more than 35 percent of the value of the gross estate of the decedent. The amendment would be applicable with respect to distributions in redemptions made after the date of enactment of the act.

Amendment No. 55: This amendment amends section 116 (a) of the Internal Revenue Code so as to apply the exemption of earned income received from sources without the United States to (1) an individual citizen of the United States who has been a bona fide resident of a foreign country or countries for an uninterrupted period which includes an entire taxable year or (2) an individual citizen of the United States who during any period of 18 consecutive months is physically present in a foreign country or countries for a total of at least 510 full days in such period. Amounts paid by the United States or any agency thereof do not come within the provisions of this amendment. The amendment further amends the Internal Revenue Code to adapt the provisions respecting collection of income tax at source on wages to the substantive changes made to section 116 (a) of the code, and to eliminate withholding of Federal income tax with respect to wages which are required by law of any foreign country to be withheld upon for income taxes of such foreign country. The House recedes with a clerical amendment.

Amendment Nos. 56, 57, and 58: These are clerical amendments. The House recedes.

Amendment No. 59: This is a technical amendment conforming to the conference agreement on Senate Amendment No. 1. The House recedes.

Amendment Nos. 60, 61, and 62: These are clerical amendments. The House recedes.

Amendment No. 63: This amendment provides rules for the application of section 117 (j) in cases where land bearing an unharvested crop is sold. The provision applies in cases where the land has been held for more than 6 months. The period that the crop has been on the land is immaterial. The House recedes.

Amendment No. 64: The House bill contained a provision which, effective for taxable years after 1950, amended section 117 (j) (1) of the code to provide that the term "property used in the trade or business" includes livestock held by the taxpayer for draft, breeding, or dairy purposes for 12 months or more. The Senate amendment restates this provision to provide that the term "property used in the trade or business" includes livestock, regardless of age, held by the taxpayer for draft, breeding, or dairy purposes, and held by him for 12 months or more from the date of acquisition. The Senate amendment

also provided that the term does not include poultry except that the term does include turkeys regardless of age, held by the taxpayer for breeding purposes, and held by him for 12 months or more from the date of acquisition. The Senate amendment also included rules respecting effective date. The House recedes with an amendment striking out the reference to turkeys. This provision of the bill is not intended to change the present application of section 117 (j) of the code to race horses in any situation in which such race horses fall within the term "property used in the trade or business."

Amendments Nos. 65 through 72: Section 307 of the House bill (which corresponds to section 325 of the Senate bill) extended capital gains treatment to certain coal royalties. The Senate amendments added certain additional rules and conforming amendments to other sections of the code. The House recedes on amendments Nos. 65, 66, 68, 69, 70, 71, and 72, and recedes on amendment No. 67 with an amendment striking out a reference to timber.

Amendment No. 73: This is a clerical amendment. The House recedes.

Amendment No. 74: The House bill provided that the amendments relating to collapsible corporations shall be applicable to taxable years beginning after December 31, 1950. This amendment limits the effective date to taxable years ending after August 31, 1951, and limits the application of the amendment to gains realized after such date. The House recedes.

Amendment No. 75: This is a clerical amendment. The House recedes

Amendment No. 76: Section 309 of the House bill added a new subsection (n) to section 117 of the code to provide rules for the treatment of capital gains and ordinary losses by a dealer in securities in order to prevent the dealer from obtaining the most beneficial tax result by a shift in securities from one account to another or by insufficient identification of securities alleged to be within a particular account. Under the amendment the provisions of section 117 (n) are made inapplicable to the extent that these provisions are inconsistent with the provisions of section 117 (i) relating to bond, etc., losses of banks. The House recedes.

Amendment No. 77: This amendment strikes out section 310 of the House bill. The House recedes with an amendment which adds a new subsection (o) to section 117 of the Internal Revenue Code so as to provide that in the case of a sale or exchange, directly or indirectly, of depreciable property (1) between husband and wife, or (2) between an individual and a corporation in which he, his spouse, and his minor children and minor grandchildren own more than 80 percent of the value of the outstanding stock, any gain recognized to the transferor shall be considered ordinary income and not capital gain. The transfer of the property can be from the corporation to the stockholder or from the stockholder to the corporation. The property transferred must be property which in the hands of the transferee is property of a character which is subject to the allowance for depreciation provided in section 23 (l) of the code. This amendment shall be applicable only with respect to sales or exchanges made after May 3, 1951.

Amendment No. 78: This amendment adds a new subsection to section 117 of the code, to provide that certain payments received

by an employee after the termination of his employment, which under existing law are taxable as ordinary income, shall be treated as gains from the sale or exchange of a capital asset held for more than 6 months. The House recedes with clerical amendments.

Amendment No. 79: This amendment, for which there is no corresponding provision in the House bill, amends section 122 (b) (2) (relating to the amount of net operating loss carry-overs) to provide for a 4-year carry-over of 1948 and 1949 net operating losses by both corporate and noncorporate taxpayers, and for a 4-year carry-over of 1946 and 1947 net operating losses by certain new corporations. The amendments to section 122 (b) (2) are made applicable in computing the net operating-loss deduction for taxable years beginning after December 31, 1948. The House recedes with an amendment which eliminates the provisions of the Senate amendment for the carry-over of 1946 and 1947 net operating losses by new corporations and reduces from four to three the number of years to which 1948 and 1949 net operating losses may be carried forward by all taxpayers.

Amendment No. 80: This amendment amends subsection (d) of section 130A, relating to definition of the term "restricted stock option," to provide that if the grant of an option is subject to stockholder approval, the date of the grant of the option shall be determined as if the option had not been subject to stockholder approval.

The amendment is made effective as if it had been enacted as a part of section 218 of the Revenue Act of 1950. The House recedes with a clerical amendment.

Amendment No. 81: This amendment adds to the bill a new section 331 pursuant to the provisions of which (1) a domestic corporation which owns at least 10 percent of the voting stock of a foreign corporation from which it receives dividends in a taxable year will, for purpose of computing the foreign tax credit of such domestic corporation, be deemed to have paid a proportion of certain foreign taxes paid, or deemed to be paid, by such foreign corporation, and (2) such foreign corporation will, for the purpose of the above computation, be deemed to have paid a proportion of certain foreign taxes paid by any other foreign corporation from which it receives dividends in a taxable year, if the former foreign corporation owns a majority of the voting stock of the latter foreign corporaton. The House recedes with a clerical amendment and an amendment pursuant to which (2) above will be operative if the former foreign corporation owns 50 percent or more of the voting stock of the latter foreign corporation.

Amendment No. 82: This amendment amends section 147 of the code to give to the Secretary the authority to require information returns reporting payments of interest, regardless of amount. Under existing law, except in the case of certain payments, information returns may not be required from persons making payment of interest unless the payment is $600 or more. The House recedes with a clerical amendment.

Amendment No. 83: This amendment adds a new section 154 to supplement D of chapter 1 of the code, relating to returns and payment of taxes.

Such section 154 provides that, where any individual dies after June 24, 1951, and prior to January 1, 1954, while in active service as a member of the Armed Forces of the United States, if his death

occurred while serving in a combat zone, as determined under section 22 (b) (13) of the code, or at any place as a result of wounds, disease, or injury incurred while so serving, (1) the tax imposed by chapter 1 of the code will not apply with respect to the taxable year in which falls the date of his death, or with respect to any prior taxable year which ended on or after the first day he was so serving in a combat zone after June 24, 1950, and (2) the tax (including interest, additions to the tax, and additional amounts) imposed by chapter 1 of the code and under the corresponding title of each prior revenue law for all taxable years preceding those specified in (1) above, which is unpaid at the date of his death shall not be assessed, and if assessed the assessment shall be abated, and if collected shall be credited or refunded as an overpayment. The House recedes with a clerical amendment.

Amendment No. 84: This amendment amends section 165 (b) of the code, relating to distributions to an employee by a trust which qualifies for exemption under section 165 (a).

Under section 165 (b), amounts distributed or made available to an employee by such a trust (in excess of the employee's contributions) are taxed to the employee only in the years in which distributed or made available and, if the total distributions are paid to the employee in one taxable year on account of the employee's separation from the service, the amount of the distribution (to the extent exceeding the employee's contribution) is taxed at capital gain rates (as from sale or exchange of a capital asset held for more than 6 months).

Under the amendment, where such a total distribution occurs in one taxable year, and consists in whole or in part of securities of the employer corporation, that part of the excess (of the amounts distributed over the amount of the employee's contributions) as consists of net unrealized appreciation attributable to that part of the total distributions made in securities of such employer corporation shall be excluded from income in the year of distribution, and shall be subject to tax only when the securities are sold (or otherwise disposed of in a taxable transaction). The amount of the net unrealized appreciation which is excluded shall in the hands of the recipient not be included in the basis of the stock or other securities distributed.

The House recedes with an amendment providing that the proposed treatment is also to apply to securities issued by a parent or subsidiary corporation of the employer corporation.

Amendment No. 85: Under section 311 of the House bill, the special rule for 1949 and 1950, set forth in section 202 (b) (2) of the code for use in determining the reserve and other policy liability credit of life insurance companies, would have been extended to apply to taxable years beginning in 1951. Under this amendment there is substituted for this provision a system for taxing such companies, but only for taxable years beginning in 1951, which is different from that contained in present law. Under this system, in lieu of allowing life insurance companies an adjustment of their normal tax net income and of their corporation surtax net income, by means of the reserve and other policy liability credit, for purposes of a tax imposed at the regular corporate rates, a low-rate tax is imposed on the normal tax net income of such companies without allowance of any such credit. Under the Senate amendment there is imposed for 1951 a tax equal to 3¾ percent of the first $200,000 of the 1951 adjusted normal tax net

income of such companies and 6½ percent of the amount in excess thereof. The House recedes with a clerical amendment.

Amendment No. 86: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 87: This amendment makes technical and clarifying changes in the section of the House bill providing for tax treatment under supplement Q of chapter 1 of the code of certain registered management investment companies certified by the Securities and Exchange Commission as principally engaged in furnishing capital to corporations principally engaged in development or exploitation of inventions, technological improvements, new processes, or products not previously generally available. The House recedes.

Amendment No. 88: This amendment, for which there is no corresponding provision in the House bill, makes a minor change in the definition of "system group" contained in section 373 (d) of the Internal Revenue Code. Under this amendment, in determining whether one or more of the corporations in a utility system owns the required 90 percent of each class of the stock of another corporation in the same system, there is disregarded not only stock which is preferred to both dividends and assets, which type of stock may be disregarded for this purpose under present law, but also stock which is limited and preferred as to dividends but which is not preferred as to assets, provided that the total value of such stock is less than 1 percent of the aggregate value of all classes of stock which are not preferred as to both dividends and assets. This amendment is applicable to all taxable years affected by exchanges and distributions made after December 31, 1947. The House recedes with a clerical amendment.

Amendment No. 89: This amendment subjects governmental colleges and universities and corporations wholly owned by such colleges or universities to the supplement U tax on their unrelated business net income, effective for taxable years beginning after December 31, 1951. The House recedes with a clerical amendment.

Amendment No. 90: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 91: This amendment provides for retroactive application to taxable years beginning after December 31, 1938, and before January 1, 1951, of the provisions added by the bill to the Internal Revenue Code with respect to the treatment of family partnerships for income tax purposes, which provisions are applicable generally to taxable years beginning after December 31, 1950. The House recedes with an amendment revising the effective date provision to provide that the amendments made by the bill with respect to family partnerships shall be applicable only with respect to taxable years beginning after December 31, 1950, and to provide rules for cases where the taxable year of the partner differs from that of the partnership.

In applying the proposed treatment of family partnerships to taxable years beginning after December 31, 1950, where the taxable year of a partnership begins in 1950 and ends within or with, as to all the family partners, taxable years which begin in 1951, the proposed treatment shall apply to all distributive shares derived by the family partners from the taxable year of the partnership beginning in 1950; however, where a taxable year of the partnership ending in 1951

(whether beginning in 1950 or 1951) ends within or with a taxable year of a family partner which began in 1950, the proposed treatment is not applicable to any of the distributive shares of income derived by the family partners from such taxable year of the partnership.

Amendment No. 92: This amendment, for which there is no corresponding provision in the bill as it passed the House, amends section 127 of the code to provide an alternative treatment of war loss recoveries, applicable at the election of the taxpayer. Under the amendment the amount of the recovery, to the extent that it does not exceed the allowable deductions in prior taxable years on account of the destruction or seizure of property in respect of which the recovery is received, is excluded from gross income for the taxable year in which the recovery is received. In lieu of including such amount in gross income for the taxable year of the recovery, there is to be added to the tax imposed by chapter 1 for such taxable year the total increase in the tax under chapter 1 and chapter 2 for all taxable years which would result by decreasing, in an amount equal to such part of the recovery so excluded, deductions allowable in prior taxable years with respect to the destruction or seizure of the property. To the extent that the amount of the recovery exceeds the allowable deductions in prior taxable years on account of the destruction or seizure of the property, such amount is treated for the taxable year of the recovery as gain on the involuntary conversion of property and is recognized or nonrecognized as provided in section 112 (f). This amendment also provides a new rule for the determination of the unadjusted basis of property where the alternative treatment of the recovery is applicable pursuant to election made by the taxpayer. The House recedes with amendments which revise section 127 (c) (3) (A) and (5), and make minor changes in the phrasing of section 127 (c) (3) (B) and (C) and section 127 (d) (2). The effective date of the amendment is also changed so that it will be applicable to taxable years beginning after December 31, 1941.

Section 127 (c) (3) (A), relating to the definition of "amount of recovery" for the purposes of the new alternative treatment, is revised under the conference agreement so that in the case of recovery of the same property or interest considered under section 127 (a) as destroyed or seized, such property or interest may be included in the amount of recovery at its fair market value, determined as of the date of recovery, or at the option of the taxpayer at the adjusted basis (for determining loss) of such property or interest in the hands of the taxpayer on the date of the loss. Subparagraph (A) is also revised to provide that for the purposes of section 127 (c) (3) (B) and (C) (but not section 127 (d) (2)) the amount of recovery shall be reduced by the amount of the obligations or liabilities with respect to the property recovered, if the taxpayer for any previous taxable year chose under section 127 (b) (2) to treat such obligations or liabilities as discharged or satisfied out of such property, and such obligations or liabilities were not so discharged or satisfied prior to the date of the recovery.

These two new rules incorporated into section 127 (c) (3) (A) may be illustrated by the following examples:

Example (1): The taxpayer on December 11, 1941, owned Blackacre, a property located in Germany. The adjusted basis of such property in the hands of the taxpayer on such date was $1,000,000. Under section 127 (a) such property was deemed destroyed or seized in the

year 1941 and the taxpayer's loss of $1,000,000 was an allowable deduction for such year whether or not the taxpayer claimed such deduction. A recovery with respect to such loss is required to be taken into account under section 127 (c). Assume that in 1946 the taxpayer recovered this property and that on the date of recovery it had a fair market value of $500,000. If the taxpayer elects to proceed under the provisions of section 127 (c) (3), he has an option to include in the amount of the recovery respecting this property either the fair market value on the date of the recovery ($500,000) or an amount equal to the adjusted basis of the property as of the date of the loss ($1,000,000). Assuming the taxpayer had no previous recovery with respect to this property, its unadjusted basis under section 127 (d) (2) for the period subsequent to recovery would be $500,000 or $1,000,000 depending upon whether the taxpayer chose to include the property in the amount of recovery in 1946 at its fair market value on the date of the recovery or its adjusted basis as of the date of loss. If the taxpayer chooses to treat $1,000,000 (the adjusted basis of the property on the date of the loss in 1941) as the amount of the recovery, there would be added to the tax for 1946 the total increase in the tax which would result by decreasing from $1,000,000 to zero the amount of the deduction allowable in 1941 on account of the destruction or seizure of Blackacre. If the taxpayer chooses to treat only $500,000 (fair market value on date of recovery) as the amount of the recovery, there would be added to the tax for 1946 the amount of the total increase in tax resulting from decreasing to $500,000 the amount of the deduction allowable in 1941. If the $1,000,000 allowable as a deduction in 1941 did not result in any tax benefit, then there would be nothing to be added to the tax for 1946, whether the taxpayer chooses the amount of the recovery as $500,000 or as $1,000,000.

Example (2): The taxpayer on December 11, 1941, owned an industrial plant in Germany. The adjusted basis of such property in the hands of the taxpayer on such date was $5,000,000. The property on such date was subject to a mortgage of $3,000,000. Under the provisions of section 127 (b) (2) the taxpayer chose to treat the mortgage as discharged or satisfied out of the property. Assume that in 1946 the taxpayer recovered this property and that on the date of recovery it had a fair market value of $5,000,000, and is still subject to the mortgage of $3,000,000. If the taxpayer elects to have the provisions of section 127 (c) (3) apply, the amount of the recovery respecting this property for the purposes of subparagraph (B) is considered to be $2,000,000. Since this amount is equal to the allowable deduction in 1941 under section 127 (b), all of such amount is excluded from gross income in 1946; however, there is to be added to the income tax for such year the total increase in the tax under chapter 1 and chapter 2 for all taxable years which would result from eliminating the allowable deduction of $2,000,000 in 1941. For the purposes of paragraph (C) the amount of recovery is likewise considered to be $2,000,000, so that there is no amount to be treated for 1946 as gain from the involuntary conversion of the property. However, this rule which reduces the amount of the recovery on account of liabilities and obligations is not applicable in applying the provisions of section 127 (d) (2). Under that section the amount of the recovery in respect of the property is $5,000,000, and since there

was no amount considered as gain upon involuntary conversion of the property in 1946, such amount is not reduced and the basis of the property is $5,000,000.

Under the conference agreement, as under existing law and the Senate amendment, property considered as destroyed or seized under section 127 (a) of the code is considered as not being in existence from the date of the loss to the date of its recovery. Thus, depreciation on the recovered property is not allowable for the period between the date of the loss and the date of the recovery.

Section 127 (c) (5), relating to the election by the taxpayer to have the provisions of section 127 (c) (3) apply to war loss recoveries, has been revised under the conference agreement to provide that if the taxpayer elects to have the provisions of paragraph (3) applicable in any taxable year in which he recovers any money or property in respect of property considered under section 127 (a) as destroyed or seized, the provisions of paragraph (3) shall be applicable to all taxable years of the taxpayer beginning after December 31, 1941. Such election once made is irrevocable. The election by the taxpayer is to be made in such manner and at such time as the Secretary may by regulations prescribe. However, no election may be made after December 31, 1952, by the taxpayer unless he receives war loss recoveries during a taxable year ending after the date of enactment of the Revenue Act of 1951.

If under an election made by the taxpayer the provisions of section 127 (c) (3) are applicable to any taxable year, the period of limitations provided in section 275 and 276 of the code for the assessment and collection of (1) the amount to be added to the tax for such taxable year under section 127 (c) (3), and (2) any deficiency for such taxable year or for any other taxable year to the extent attributable to the basis of the recovered property being determined under section 127 (d) (2), shall not expire prior to the expiration of 2 years following the date of the making of such election. Any amount and any deficiency specified in clauses (1) and (2) of the preceding sentence may be assessed at any time prior to the expiration of such 2-year period, notwithstanding any law or rule of law which would otherwise prevent such assessment and collection.

Paragraph (5) further provides that if section 127 (c) (3) is applicable to any taxable year pursuant to the taxpayer's election, and credit or refund of any overpayment resulting from the application of section 127 (c) (3) to such taxable year is prevented on the date of the making of such election, or within 1 year from such date, by any law or rule of law (other sec. 3761 of the Internal Revenue Code, relating to compromises), credit or refund of such overpayment may nevertheless be made or allowed if claim therefor is filed within 1 year from such date.

Paragraph (5) further provides that in the case of any taxable year ending before the date of the making by the taxpayer of an election, no interest shall be paid upon any overpayment resulting from the application of the provisions of section 127 (c) (3) to such year, and no interest shall be assessed or collected with respect to any amount or any deficiency specified in clauses (1) and (2) above, for any period prior to the expiration of 6 months following the date of the making of such election by the taxpayer.

Amendment No. 93: This amendment adds a new subsection (ff) to section 23 of the code (relating to deductions from gross income), providing that expenditures paid or incurred during the taxable year for the purpose of ascertaining the existence, location, extent, or quality of any deposit of ore or other mineral, and paid or incurred prior to the beginning of the development stage of the mine or deposit, may be deducted in computing net income for the taxable year, except to the extent that such expenditures exceed $75,000. The subsection further provides that the taxpayer may elect to treat as deferred expense any portion of such deductible amount, in which event such deferred portion shall be deductible on a ratable basis as the units of produced ores or minerals discovered or explored by reason of such expenditures are sold. No deduction may be taken under this new subsection if in any four preceding years (not necessarily consecutive years) the taxpayer, or any individual or corporation (who has transferred to the taxpayer any mineral or ore property under circumstances which make the provisions of pars. (7), (8), (11), (13), (15), (17), (20), or (22) of section 113 (a) of the code applicable to such transfer), has taken a deduction, or elected to treat exploration expenditures as deferred expense, under the new subsection. The House recedes with a clerical amendment.

Amendment No. 94: This amendment would have added a new subsection (n) to section 115 of the code to provide a special rule for the treatment of gain upon the complete liquidation of a corporation where the distribution in liquidation included stock in another corporation to which unimproved real estate had been transferred in anticipation of such liquidation. The Senate recedes.

Amendment No. 95: This amendment adds paragraph (20) to section 3797 of the code to provide in substance that a full-time life insurance salesman who is an employee under the definition contained in the Federal Insurance Contributions Act shall be considered to be an "employee" for the purpose of applying the provisions of chapter 1 (such as sections 22 (b) (2) (B), 23 (p) and 165) which determine the effect of contributions for the benefit of, and distribution to, "an employee" under a stock bonus, pension, profit-sharing, or annuity plan. The amendment is applicable to taxable years beginning after 1938. The House recedes.

Amendment No. 96: This amendment would allow in full, for purposes of computing the net operating loss (as defined by sec. 122 (a) of the code) of a taxpayer other than a corporation, deductions allowable under section 23 (e) (2) (relating to losses incurred in a transaction entered into for profit) and section 23 (e) (3) (relating to losses of property not connected with a trade or business, if the losses arise from fire, storm, shipwreck, or other casualty or from theft). Under existing law, in computing the net operating loss in the case of such a taxpayer, section 122 (d) (5) limits the deductions otherwise allowable under section 23 of the code which are not attributable to a trade or business regularly carried on by the taxpayer to the extent of the gross income not derived from such trade or business. The House recedes with an amendment which removes from the present limitation in section 122 (d) (5) deductions for losses sustained after December 31, 1950, in respect of property, if the losses arise from fire, storm, shipwreck, or other casualty, or from theft. The amendment will enable a taxpayer who is an individual to take such losses into account.

in computing a net operating loss which may be carried back 1 year or carried forward 5 years. The amendment is made applicable in computing the net operating loss deduction for taxable years ending after December 31, 1948.

Amendment No. 97: This amendment relates to the abatement of tax of certain irrevocable trusts to the extent that the income is owned by any individual who dies on or after December 7, 1941, while in active service as a member of the military or naval forces of the United States or of any of the other United Nations and prior to January 1, 1948.

The House recedes with an amendment which provides that, in the case of a trust which accumulated income for a beneficiary who died on or after December 7, 1941, and before January 1, 1948, while in active service as a member of the military or naval forces of the United States or of any of the other United Nations, there shall be allowed as a deduction in computing the net income of the trust for any taxable year the income of the trust for such taxable year, before diminution for income taxes with respect thereto, which was, or would have been but for such diminution, accumulated for such beneficiary.

This deduction shall be allowed, however, only if (1) the income accumulated was for a taxable year of the trust which ended with or within a taxable year (ending on or after December 7, 1941) of such beneficiary during any part of which he was a member of such military or naval forces, or, in the case of the taxable year of the trust during which such beneficiary died, the income accumulated was for the period in such taxable year prior to the death of such beneficiary, and (2) the amount of such accumulated income was, without regard to this amendment, taxable to the trust, and (3) the income for such taxable year accumulated for the beneficiary, if not distributed to him prior to his death, was payable by the trust at or after his death only to his estate, spouse, or lineal ancestors or descendants.

Amendment No. 98: This amendment (effective for taxable years ending after the date of enactment of this bill) would require a net worth statement to be filed with the return of any individual who during the taxable year received gross income in excess of $10,000 from one or more unlawful trades or businesses. The Senate recedes.

Amendment No. 99: This amendment amends the life insurance company provisions of the code to provide that the life insurance department of a mutual savings bank is to be taxed as a life insurance company. This amendment is a corollary of amendment No. 45, relating to the taxation of mutual savings banks. The amendment is applicable only with respect to taxable years beginning after December 31, 1951.

The House recedes with an amendment which adds a new section 110 to the code to provide the method for computing the tax of a mutual savings bank authorized under State law to conduct a life insurance business and which conducts such a business in a separate department the accounts of which are maintained separately from the other departments of the bank. The tax is to consist of the sum of (1) a partial tax computed under sections 13 and 15 of the code upon the net income of the bank determined without regard to any items of income or deductions properly allocable to the life insurance department; and (2) a partial tax upon the net income of the life insurance department determined without regard to any items of income or

deductions not properly allocable to such department at the rates and in the manner provided in supplement G with respect to life insurance companies. In determining the net income for purposes of such partial taxes no account shall be taken of any transactions between the insurance department and the bank or any other department thereof.

The amendment is applicable only with respect to taxable years beginning after December 31, 1951.

Amendment No. 100: This amendment adds at the end of section 422 (b) of the code (relating to definition of unrelated trade or business for the purpose of determining the unrelated business net income subject to the supplement U tax) a special rule with respect to publishing businesses carried on by colleges and universities. This amendment is applicable with respect to taxable years beginning after December 31, 1950 and prior to January 1, 1953. The purpose of this amendment is to afford an organization (exempt under sec. 101 (6) and subject to supplement U) which owns a publishing business limited opportunity to conform or relate such publishing business to its educational or other exempt purposes within the time specified in the amendment, and thus be relieved of supplement U tax thereon for taxable years preceding the taxable year in which the activity becomes related. The House recedes with a clarifying amendment.

Amendment No. 101: This amendment, for taxable years beginning prior to January 1, 1954, treats as related, for the purposes of the tax imposed by supplement U, an unrelated trade or business carried on by certain educational organizations. The House recedes with an amendment which adds at the end of section 442 (a) (relating to the definition of unrelated business net income for the purpose of the supplement U tax) a special rule with respect to unrelated trades or businesses carried on in partnership by certain educational organizations. The amendment is applicable with respect to taxable years beginning after December 31, 1950, and prior to January 1, 1954.

Amendment No. 102: This amendment adds a new subsection (e) to section 504 of the code relating to the computation of undistributed subchapter A net income for purposes of the imposition of the surtax on personal holding companies. Subsection (e) will provide for the deduction, for purposes of computing undistributed subchapter A net income, of an amount by which the undistributed subchapter A net income determined without regard to subsection (e) exceeds the amount which could be distributed on the last day of the taxable year as a dividend (1) without the violation of any action, regulation, rule, order, or proclamation made under the Trading With the Enemy Act of October 16, 1917, as amended, or the First War Powers Act of 1941, and (2) not subject to a lien in favor of the United States. The amendment is applicable to taxable years beginning after 1939. The House recedes with a clerical amendment.

Amendment No. 103: This is a technical amendment to provide that the fifth sentence of section 1700 (a) (1) of the code, added by Public Law 124, Eighty-second Congress, shall be stricken from the code as surplusage upon elimination of the second sentence as provided in the House bill. The House recedes.

Amendment No. 104: This amendment retains the substantive provisions of the House bill, but differs therefrom in the following respects:

(*a*) Whereas the House bill would grant an exemption from the admissions tax in the case of shows or performances the proceeds of which inure exclusively to the benefit of certain organizations, such as religious, charitable, and educational groups, no such exemption would apply, under the Senate amendment, in the case of any motion-picture exhibition. Under the Senate amendment, to come within the exemption privilege, a religious institution must be a church or a convention or association of churches; an educational institution, to be entitled to the exemption, must have a regular curriculum and student body; and a charitable institution must be supported, in whole or part, by Federal or State funds or by contributions from the general public.

(*b*) The Senate amendment eliminates the pre-1941 exemption in the case of admissions all the proceeds of which inure exclusively to the benefit of societies for the prevention of cruelty to children or animals and the pre-1941 exemption in the case of societies or organizations conducted for the sole purpose of maintaining a cooperative or community center motion-picture theater.

(*c*) Whereas the House bill would exempt admissions to agricultural fairs and to any exhibit, entertainment, or other pay feature conducted by the fair association as part of the fair, the Senate amendment limits the exemption to the general admission charge to the fair only.

(*d*) The exemption granted under the House bill in the case of benefits conducted for or on behalf of police or fire departments, their members or heirs has been further limited to provide that the proceeds from such benefits must inure exclusively to the benefit of the police or fire department or to a retirement, pension or disability fund for the members or their heirs.

(*e*) The Senate amendment also makes it plain that an exemption from the admissions tax is to apply to operas as well as symphonies which receive their support from voluntary contributions.

The House recedes with an amendment which provides an exemption from tax on admissions, the proceeds of which inure exclusively to the benefit of an organization (organized prior to October 1, 1951) which is exempt under section 101 (6) of the code and which is operated for the purpose of conducting an annual chautauqua program of educational, cultural, and religious activities at a permanent location.

The bill restores the provisions of section 1701 (c) of the code without change, so that admissions to concerts conducted by a civic or community membership association (such as orchestras, choral societies, etc.) will be exempt from tax.

Amendment No. 105: This is a clerical amendment. The House recedes.

Amendment No. 106: This amendment grants an exemption from the admissions tax covering admissions (1) to a home or garden which is temporarily opened to the general public as part of a program carried on by a society or organization for such purpose and (2) to historic sites, houses, and shrines, and museums conducted in connection therewith, maintained and operated by a society or organization devoted to the preservation of such places. The House recedes.

Amendment No. 107: This amendment provides that the increase in the rate of tax with respect to cigarettes shall be reduced to the

present rate of tax effective January 1, 1954. The House recedes with an amendment fixing the rate reduction date as April 1, 1954.

Amendments Nos. 108 and 109: These are clerical amendments. The House recedes.

Amendment No. 110: This amendment makes provision for a floor-stocks refund on tax-paid cigarettes which are held for sale on January 1, 1954, the rate reduction date specified in the bill as passed by the Senate. The House recedes with an amendment fixing April 1, 1954, as the inventory date to correspond with the change made in the rate reduction date and an amendment fixing July 1, 1954, as the date before which claims for refund must be filed.

Amendment No. 111: This amendment provides for a reduction in the rate of tax on snuff and chewing and smoking tobacco from 18 cents per pound to 10 cents per pound. The House recedes with a technical amendment.

Amendment No. 112: This amendment strikes out the provisions of section 431 of the House bill imposing a retailers' excise tax upon mechanical lighters for cigarettes, cigars, and pipes. Such articles will be taxed at the manufacturers' level at the rate of 15 percent (see amendment No. 189). The House recedes.

Amendments Nos. 113 and 114: These amendments are clerical. The House recedes.

Amendments Nos. 115 and 116: These amendments provide that the retailers' excise tax shall not apply with respect to the sale of miniature samples of cosmetics, toilet articles, lotions, powder, etc., taxable under section 2402 (a) of the code, made by a manufacturer or distributor to a house-to-house salesman for demonstration purposes only unless such samples are resold by the salesman. The House recedes.

Amendment No. 117: This amendment is clerical. The House recedes.

Amendment No. 118: This amendment strikes out all of the provisions of the House bill relating to the imposition of a tax of 2 cents per gallon upon any liquid sold or used as a fuel in a Diesel-powered highway vehicle. The House recedes with an amendment which restores the House provisions but provides that effective April 1, 1954, the rate of tax on such fuel will be reduced to 1½ cents per gallon.

Amendments Nos. 119 and 120: These amendments are clerical. The Senate recedes.

Amendments Nos. 121 and 122: These amendments provide that the increase in tax imposed with respect to distilled spirits generally and to imported perfumes containing distilled spirits shall be reduced to the present rate of tax effective January 1, 1954. The House recedes with an amendment fixing April 1, 1954, as the rate reduction date in lieu of January 1, 1954.

Amendments Nos. 123, 124, 125, and 126: These amendments are clerical. The Senate recedes.

Amendments Nos. 127, 128, and 129. These amendments provide that the increase in tax with respect to wines of the various classifications specified shall be reduced to the present rate of tax effective January 1, 1954. The House recedes with an amendment providing that the rate reduction date shall be April 1, 1954.

Amendment No. 130: This amendment is clerical. The Senate recedes.

Amendment No. 131: This amendment provides that the increase in tax imposed with respect to certain sparkling wines, liqueurs, and cordials shall be reduced to the present rate of tax effective January 1, 1954. The House recedes with an amendment establishing the rate reduction date as April 1, 1954.

Amendments Nos. 132, 133, 134, 135, and 136: These are clerical amendments. The Senate recedes.

Amendment No. 137: This amendment provides that the increase in the rate of tax imposed with respect to fermented malt liquors shall be reduced to the present rate of tax effective January 1, 1954. The House recedes with an amendment providing that the rate reduction date shall be April 1, 1954.

Amendments Nos. 138, 139, and 140: These amendments are clerical. The Senate recedes.

Amendment No. 141: This amendment provides for floor stocks refunds with respect to tax-paid distilled spirits, wine, and beer held for sale upon the termination of the tax rate increases proposed for these products in the bill. The House recedes with an amendment fixing the inventory date to be used in determining the amount of refunds as April 1, 1954, in lieu of January 1, 1954, and with a clerical amendment.

Amendment No. 142: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 143: This is a clerical amendment. The House recedes with a clerical amendment.

Amendments Nos. 144, 145, and 146: These amendments are clerical. The Senate recedes.

Amendments Nos. 147, 148, and 149: These amendments provide that the increase in the occupational tax for wholesale dealers in liquor, retail dealers in liquor, and wholesale dealers in malt liquor, respectively, shall be reduced to the present rate on and after January 1, 1954. Under the House bill, the increase in rates was permanent. The Senate recedes.

Amendment No. 150: This amendment is clerical. The Senate recedes.

Amendment No. 151: The House bill provided for an increase in the rate of draw-back on distilled spirits used in certain nonbeverage products. The Senate amendment makes technical revisions in this provision so as to provide for reduction of the amount of draw-back after December 31, 1953, to correspond with the reduction in the rate of tax on distilled spirits on and after January 1, 1954. The House recedes with clerical amendments and with an amendment providing that the reference to draw-backs made after December 31, 1953, shall be changed to March 31, 1954, to take into account the change in the rate reduction date.

Amendment No. 152: This amendment is clerical. The Senate recedes.

Amendment No. 153: This amendment eliminates the increase in tax proposed under the House bill on bowling alleys and billiard and pool tables. The House recedes.

Amendment No. 154: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 155: This is a clerical amendment. The Senate recedes.

Amendment No. 156: This is a clerical amendment. The House recedes with a clerical amendment.

Amendments Nos. 157, 158, 159, 160, 161, and 162: These amendments are clerical. The Senate recedes.

Amendment No. 163: This amendment is technical and makes it clear that any person who is liable for tax under subchapter A of chapter 27A of the code, as added by the bill, or who is engaged in receiving wagers for or on behalf of any person so liable, and who commenced the activity which makes him subject to tax, or who was engaged in receiving such wagers, prior to the day on which such tax becomes effective shall be required to pay the special tax imposed by subchapter B of chapter 27A. The House recedes with clerical amendments.

Amendments Nos. 164 and 165: These are clerical amendments. The Senate recedes.

Amendment No. 166: This amendment provides that the increase in the rate of the manufacturers' excise tax with respect to trucks, busses, etc., shall revert to the present rate of tax effective January 1, 1954. The House recedes with an amendment providing that the rate reduction date shall be April 1, 1954.

Amendment No. 167: This amendment eliminates the present tax of 7 percent upon the sale of house trailers, including parts and accessories therefor. This amendment will become effective on the first day of the first month which begins more than 10 days after the date of enactment of the bill, thus, the tax would apply with respect to the sale of house trailers made prior to such effective date and notwithstanding that such purchases may be paid for on an installment plan after such date. A house trailer would be considered as sold prior to such effective date if the right of possession thereto passed to the purchaser prior to such effective date.

The amendment also provides that the increase in the rate of the manufacturers' excise tax with respect to automobile chassis and bodies, motorcycles, trailers, and semitrailers (other than house trailers) suitable for use in connection with automobiles, shall revert to the present rate of tax with respect to sales made on and after January 1, 1954. The House recedes with an amendment providing that the rate reduction date shall be April 1, 1954.

Amendment No. 168: This amendment provides that the increase in the rate of the manufacturers' excise tax with respect to parts and accessories for automobiles shall revert to the present rate of tax with respect to sales made on and after January 1, 1954. The House recedes with an amendment providing that the rate reduction date shall be April 1, 1954.

Amendment No. 169: This is a technical amendment. The House recedes.

Amendment No. 170: This is a clerical amendment. The Senate recedes.

Amendment No. 171: This is a technical amendment. The House recedes.

Amendment No. 172: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 173: This amendment provides that a manufacturer of refrigerator components may sell such components tax free to a wholesaler or dealer if such components are purchased for

resale to a manufacturer of refrigerator equipment and provided the regulations prescribed by the Secretary of the Treasury relating to such sales are complied with. The House recedes with clerical amendments.

Amendment No. 174: This amendment (*a*) revises the taxable list of sporting goods in the House bill to exclude baseballs and baseball equipment, (*b*) reinstates certain items taxable under present law but excluded under the House bill, (*c*) retains the present 10 percent rate of tax with respect to fishing equipment, and (*d*) increases the rate of tax, like the House bill, with respect to the remaining sporting equipment to 15 percent. The House recedes, with an amendment providing that snow toboggans and sleds 60 inches or less in length shall not be subject to tax and that the increase in the rate of tax shall revert to the present rate of tax effective April 1, 1954.

Under the provisions of the act of August 9, 1950 (the Dingell-Johnson Act), an amount equal to the revenue accruing from the tax on fishing rods and equipment is authorized to be appropriated for assistance to the States for fish restoration and management projects. The amendments made by this bill will not affect such authorization nor the permanency of such act.

Amendment No. 175: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 176: This is a clerical amendment. The House recedes.

Amendment No. 177: This is a clerical amendment. The Senate recedes.

Amendment No. 178: This amendment strikes out electric direct motor-driven fans and air circulators of the industrial type and electric air heaters of the blower type from the list of items subject to the manufacturers' excise tax under section 3406 (a) (3) of the code. Senate amendment No. 182 exempts from the tax all appliances listed in such sections which are of the industrial type.

The House recedes with an amendment which provides that the tax imposed by section 3406 (a) (3) of the code shall not apply to electric direct motor-driven fans and air circulators of the industrial type, and shall apply in the case of all other appliances listed in section 3406 (a) (3), including those added to such list by the bill, only to such appliances of the household type.

Amendment No. 179: This is a clerical amendment. The House recedes with a technical amendment to conform to the action of the conferees with respect to amendment No. 178.

Amendment No. 180: This amendment adds electric exhaust blowers to the list of items subject to the manufacturers' excise tax. The House recedes.

Amendment No. 181: This amendment strikes out the provision of the House bill which would have added electric shavers to the list of appliances subject to the manufacturers' excise tax under section 3406 (a) (3) of the code, and adds electric garbage-disposal units to such list. The House recedes with an amendment which omits both items from the list of appliances subject to the tax.

Amendment No. 182: This amendment provides that the tax imposed by section 3406 (a) (3) will not apply to appliances of the industrial type. The substance of this amendment is covered by the

action of the conferees with respect to amendment No. 178. The Senate recedes.

Amendment No. 183: This amendment makes the provisions of section 3441 (b) (relating to sale price of a taxable article) applicable to a situation where a manufacturer has a plan of negotiating the sale of an article to the ultimate user for and on behalf of the retailer of such article. The Senate recedes.

Amendment No. 184: The House removed certain items from the list of articles subject to the manufacturer's excise tax on photographic apparatus, imposed by section 3406 (a) (4) of the code, and subjected the items upon which the tax is retained to a uniform 20 percent rate.

The Senate amendment (a) retains the present list of photographic items subject to tax and subjects such items to a uniform tax rate of 15 percent with respect thereto and (b) provides that the tax on a sale of unexposed 35-millimeter color positive-print motion-picture film shall be computed, in lieu of on the price for which so sold, on the price for which an equivalent quantity of unexposed 35-millimeter black-and-white positive-print motion-picture film is sold. The House recedes with an amendment which restores the House provision with a clerical amendment.

Amendment No. 185: This is a clerical amendment. The House recedes with a clerical amendment.

Amendments Nos. 186 and 187: These are clerical amendments. The House recedes.

Amendments Nos. 188 and 189: The House bill imposed a manufacturers' excise tax, at a rate of 20 percent, on mechanical pencils, fountain pens, and ball point pens. Senate amendment No. 189 adds to this list mechanical lighters for cigarettes, cigars, and pipes (the House had imposed a tax on these items at the retail level; see amendment No. 112), and Senate amendment No. 188 provides a rate of tax of 10 percent on all these items. The House recedes on amendment No. 189, and recedes with an amendment on amendment No. 188 fixing the rate of tax on these items at 15 percent.

Amendment No. 190: This is a technical amendment. The House recedes.

Amendment No. 191: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 192: This is a clerical amendment. The House recedes.

Amendment No. 193: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 194: This amendment provides that the increase in the rate of tax on gasoline shall be reduced to the present rate of tax effective January 1, 1954. The House recedes with an amendment fixing the rate reduction date as April 1, 1954.

Amendments Nos. 195, 196, and 197: These are clerical amendments. The House recedes on amendments Nos. 195 and 196 and recedes with a clerical amendment on amendment No. 197.

Amendment No. 198: This is a technical amendment. The House recedes with a further technical amendment providing that the credit and refund provisions of section 3443 of the code shall be applicable to the floor stocks tax imposed on gasoline.

Amendment No. 199: This amendment provides for a floor stocks refund on certain gasoline held for sale on January 1, 1954, the date provided by Senate amendment No. 194 for termination of the increase in tax on gasoline. The House recedes with an amendment fixing April 1, 1954, as the inventory date to correspond with the change made in the rate reduction date.

Amendment No. 200: This is a clerical amendment. The House recedes with a clerical amendment.

Amendments Nos. 201, 202, and 203: These are clerical amendments. The Senate recedes.

Amendment No. 204: The House bill reduced the rate of tax on domestic telegraph, cable, or radio dispatches from 25 percent to 20 percent. The Senate amendment further reduces the rate of tax to 15 percent. The House recedes.

Amendments No. 205, 206, 207, 208, and 209: These are clerical amendments. The House recedes.

Amendment No. 210: This amendment provides that no tax shall be imposed under section 3465 (a) (1) (A) of the code on any payment received for any telephone or radio telephone message which originates within a combat zone, as defined in section 22 (b) (13), from a member of the Armed Forces of the United States performing service in such combat zone. The House recedes with a clerical amendment.

Amendment No. 211: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 212: This amendment strikes out the provisions of the House bill which would impose a tax on the transportation of crude petroleum and liquid products thereof by water from one point in the United States to another when such transportation is performed by the owner of the crude petroleum and liquid products thereof. The House recedes.

Amendment No. 213: This amendment provides that no tax shall be imposed with respect to the transportation of persons by water on a vessel which makes one or more intermediate stops at ports within the United States, Canada, or Mexico on a voyage which begins or ends in the United States and ends or begins outside the northern portion of the Western Hemisphere if the vessel in stopping at such intermediate ports is not authorized both to discharge and to take on passengers. The House recedes with a clerical amendment.

Amendment No. 214: This amendment provides that section 3475 of the code, relating to the tax on the transportation of property, shall not apply to the transportation of earth, rock, or other material excavated within the boundaries of, and in the course of, a construction project and transported to any place within, or adjacent to, the boundaries of such project. The House recedes with an amendment providing that the determination as to the applicability of the tax imposed by section 3475 in the case of the transportation of any excavated material, other than transportation to which the amendment made by this subsection applies, shall be made as if this subsection had not been enacted and without inferences drawn from the fact that the amendment made by this subsection is not expressly applicable to the transportation of such other material.

Amendment No. 215: This is a clerical amendment. The House recedes with a clerical amendment.

Amendment No. 216: This amendment provides for a refund of tax on cigarettes, distilled spirits, wine, and beer equal to the difference between the tax paid on such items and the amount of tax made applicable on and after January 1, 1954, brought from a foreign trade zone into customs territory of the United States on and after January 1, 1954, the rate reduction date specified with respect to the taxable articles in question. The House recedes with a clerical amendment and with an amendment fixing the determinative date as April 1, 1954, in lieu of January 1, 1954.

Amendment No. 217: This amendment provides that the Secretary of the Treasury is authorized and directed to make refund, or allow credit, in the case of a distiller or rectifier, if he so elects, in the amount of the internal revenue tax and customs duties paid on spirits previously withdrawn, and lost or rendered unmarketable by reason of the 1951 floods, provided certain conditions are met. The House recedes with a clerical amendment.

Amendment No. 218: This amendment is clerical. The House recedes.

Amendment No. 219: This amendment, for which there is no corresponding provision in the bill as passed by the House, provides in a new subsection (e) (1) of section 430 for the computation of an alternative amount of excess profits tax for each of the first five taxable years of corporations which commenced business after July 1, 1945. The amount computed thereunder would be the maximum excess profits tax if less than the amount computed under section 430 (a) (2). Under the Senate amendment, the maximum tax would not exceed the following percentages of the first $400,000 of the excess profits net income: 5 percent if the taxable year is the first or second taxable year (determined from the commencement of business), 8 percent for the third taxable year, 11 percent for the fourth taxable year, and 14 percent for the fifth taxable year. Under the Senate amendment, if, for any such year the excess profits net income exceeds $400,000, the excess over $400,000 is subject to the same maximum tax as in the case of other corporations.

The amendment also provides rules in subsection (e) (2) for determining, for the purpose of the subsection, when a taxpayer shall be considered to have commenced business and to have had taxable years determined by reference to the date of commencement of business of certain other corporations. It contemplates that the Secretary will, by regulations, provide for the determination of constructive taxable years by reference to the annual accounting period first established by the taxpayer.

The Senate amendment also provides, in effect, that the benefits of the special limitation provisions under section 430 (e) (1) shall be denied to any taxpayer which derives more than 50 percent of its income for the taxable year from contracts or subcontracts to which title I of the Renegotiation Act of 1951 or to which any prior renegotiation act is applicable.

The House recedes with an amendment. Paragraph (1) of subsection (e) is amended to make it clear that the provision is applicable only to taxpayers whose fifth taxable year ends after June 30, 1950. Clauses (ii) and (iii) of subparagraph (E) of subsection (e) (1) are amended to conform the percentage figures specified therein to those provided by the conference agreement on Senate Amendment No. 6.

A change is made in each of subparagraphs (A) to (D), inclusive, of subsection (c) (1), which makes the percentages therein specified applicable to only the first $300,000 of excess profits net income instead of to the first $400,000 of such income as provided in the Senate amendment, and a conforming amendment is made to subsection (c) (1) (E). Amendments are made to paragraph (2) of subsection (c) to make clear that in determining a constructive date of commencement of business and constructive taxable years from such date thereunder, a new determination shall be made each taxable year in the light of the facts for such year. An additional amendment is made to clause (i) of subparagraph (E) to make clear that such clause applies without regard to the provisions of section 445 (g) (1). An additional amendment is made to clause (ii) of such subparagraph to make clear that, for the purpose of such clause, a person shall not be considered a member of a group of persons who control the taxpayer and another corporation unless during the period specified in such clause he owns stock in the corporation at a time when the members of the group control such corporation and he owns stock in the taxpayer at a time when the members of the group control the taxpayer. A change is made in subparagraph (B) of paragraph (2) of subsection (c) to the effect that transactions described in clauses (i) and (iii) shall be disregarded in determining the date as of which the taxpayer shall be considered to have commenced business if the adjusted basis of the aggregate assets acquired by the taxpayer in such transactions before December 1, 1950 (or acquired in the ordinary course of business in replacement of such assets), constituted less than 20 percent of the adjusted basis of the taxpayer's total assets as of December 1, 1950. A change is also made in paragraph (3) of subsection (c) to provide that the gross income of the taxpayer for the taxable year from contracts and subcontracts subject to renegotiation shall, for the purpose of applying the limitation provided by such paragraph, be determined without regard to capital gains and dividends received. Such gross income is the gross income after renegotiation.

Amendment No. 220: This amendment, for which there is no corresponding provision in the House bill, provides for exclusion in the computation of excess profits net income, for both excess profits tax taxable years and base period years, of payments made to a domestic corporation by its related foreign corporation as remuneration for certain technical services rendered. The House recedes with clarifying amendments and an amendment which amends the definition of related foreign corporation to provide that, in order to be a related corporation, 10 percent or more of the stock of the foreign corporation must be owned by the domestic corporation at the time the specified services are rendered.

Amendment No. 221: This amendment adds section 503 to the bill, for which there is no corresponding section in the House bill. This section permits a taxpayer with a fiscal year beginning before January 1, 1950, and ending after March 31, 1950, in computing its average base period net income under the general average method provided by section 435 (d) of the code, to use the period of 48 consecutive months ending March 31, 1950, instead of its base period, if such computation produces a lesser excess profits tax for the taxable year.

The House recedes with an amendment which provides that the excess profits net income for the first 3 months of 1950 shall be subject to the percentage limitations provided in section 435 (e) (2) (E) if such months fall in a taxable year ending after June 30, 1950.

Amendment No. 222: This amendment extends to a new corporation which commenced business before the end of its base period the right to qualify under section 435 (e) of the code for the alternative average base period net income based on growth for the purpose of determining its excess profits credit based on income. The House recedes with technical amendments.

Amendment No. 223: This amendment extends the benefits of section 435 (e) (2) (G) (special alternative average base period net income for a corporation whose excess profits net income for 1949 is not more than 25 percent of its excess profits net income for 1948) to a taxpayer qualifying for growth treatment under section 435 (e) (1) (B) even though it also qualifies as a growth corporation under section 435 (e) (1) (A). The House recedes.

Amendment No. 224: This amendment, for which there is no corresponding section in the House bill, provides limitations in the case of a bank, as defined in section 104 of the code, on the amount of the inadmissible asset adjustment to the net capital addition or reduction for the taxable year, to the net new capital addition for the taxable year, and to the base period capital addition. This amendment also amends section 435 (f) (relating to capital additions in the base period) to make clear that the yearly base period capital of any taxpayer (whether or not a bank) shall not be reduced below zero by the inadmissible asset adjustment.

The House recedes with clarifying amendments and with an amendment dealing with the effective date of the provision applicable to the base period capital addition of banks, making such provision retroactive only at the election of the taxpayer.

Amendment No. 225: This amendment, for which there is no corresponding provision in the House bill, adds two new paragraphs (9) and (10) to section 435 (g) (relating to net capital addition or reduction) in order to provide, if certain conditions are met, that a decrease in inadmissible assets, to the extent in excess of the net capital reduction (if any) for the taxable year, shall be an addition to the excess profits credit computed under the income method. The principal condition to be met is that where there is a decrease in inadmissible assets there must also be a corresponding increase in operating assets before any increase in the credit is allowed.

The House recedes with clarifying amendments and with an amendment providing a special rule for the treatment of a decrease in inadmissible assets in the case of a bank.

Amendment No. 226: This amendment, for which there is no corresponding provision in the bill as passed by the House, permits a dealer in wholly tax-exempt Government securities to elect to increase its excess profits net income by the interest (with certain adjustments) on such obligations, and to treat such obligations as admissible assets. The House recedes with a technical amendment and an amendment which extends the application of the section to Government obligations any part of the interest from which is allowable as a credit against net income.